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## **Indonesia**

### **Market Development Reports**

### **Indonesian Beverage Industry**

## **2001**

Approved by:

**Dennis Voboril**

**U.S. ATO Jakarta**

Prepared by:

PacRim Associates

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#### **Report Highlights:**

**The Indonesian beverage industry offers only limited immediate opportunities for the sale of fruit crops for processing into beverages, but demonstrates potential for medium term growth. The population of over 210 million Indonesian people constitutes a significant consumer base and the tropical climate limits local production of temperate climate fruit varieties, creating an opportunity for U.S. fruit and vegetable exports for processing into beverages.**

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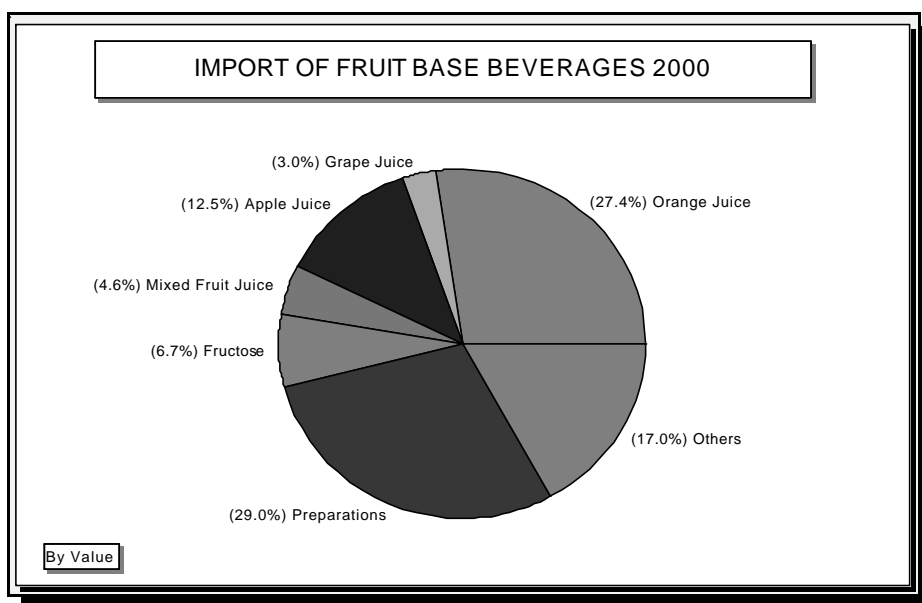
## Market Brief: Indonesian Beverage Industry Medium-Term Growth Opportunities

### Section I: Market Overview

This report on the Indonesian beverage industry concentrates on the use of fruit and vegetables that are commonly processed for drinks, and does not include alcoholic beverages, soft drinks, water, or dairy products. The Indonesian beverage industry offers only limited immediate opportunities for the sale of fruit crops for processing into beverages, but demonstrates potential for medium term growth. The population of over 210 million Indonesian people constitutes a significant consumer base and the tropical climate limits local production of temperate climate fruit varieties, creating an opportunity for U.S. fruit and vegetable exports for processing into beverages.

In 2000, imports of fruit and fruit based beverages totaled 8,025 metric tons (mt) valued at \$6.95 million. This approaches the pre-economic crisis level of \$7.0 million reached in 1996, and a significant rebound from a low of \$4.4 million in 1998.

Indonesia was perhaps most severely impacted by the recession that after the Asian economic crisis of 1997. The graph displays the percentages of various beverage products imported in 2000.

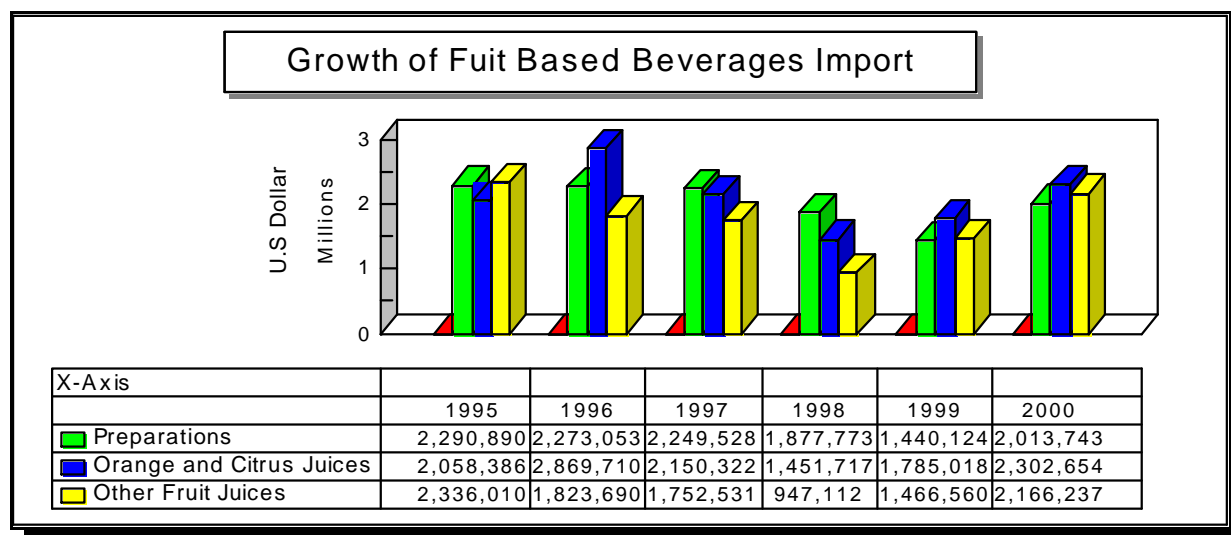


Orange juice, in several forms such as frozen, ready for consumption, and in bulk, represents the most important single fruit juice import to Indonesia. The “Preparations” category in the chart above includes items such as fruit jams and jellies, mango and guava puree, and mixed fruit.

The primary consumers of fruit beverages in Indonesia are middle class city dwellers. People in rural areas may be able to find packaged orange juice locally, but the cost would limit

consumption to an expensive occasional treat. The most common drink purchased and served throughout Indonesia is pure water, with the addition of sugar-based syrup for flavoring also common. In restaurants and food stalls various juices are commonly offered, with orange, pineapple, avocado and melon juice being the most common. With the exception of orange juice, the beverages are normally processed on-site with a blender.

The Asian economic crisis that began in mid-1997 caused a decline in the value of fruit preparations and fruit juices imported. Depreciation of the Rupiah from Rp.2,250 against the US dollar in 1996 to an unstable condition that has fluctuated around Rp10,000 left the middle class with a reduced capacity to buy food based on imported ingredients. However, the data below shows that the market has almost fully recovered to the pre-crisis level.



It is very difficult to estimate the true number of beverage producing companies in Indonesia, because the list of 220 registered beverage companies includes soft drink producers and bottlers of pure water. In addition, most of these companies are small enterprises employing less than fifty people, and there are several hundred additional similar small enterprises that are not registered with the Department of Trade and Industry. The majority of the registered companies produce bottled water (37%), citrus drinks (32%), and soft drinks (12%). The remaining companies produce mainly juices, syrups, tea and traditional medicinal drinks.

In the majority of cases, beverages are sold to consumers via the traditional markets. Modern retail outlets have been established only in the past ten years in Indonesia, and the modern retail sector is present only in the major cities, thus accounting for only a small percentage of total beverage sales. The hotel and restaurant sector also constitutes a varied but significant channel for sale of beverages. Hotels range from International four and five-stars to economy units catering to local travelers. Beverages served vary accordingly. Similarly food outlets include restaurants patronized by foreign tourists, wealthy Indonesians and expatriate workers as well the far more numerous road side stalls and small eating houses popular with the wider population.

<b>Advantages and Challenges Facing U.S. Beverage Products in Indonesia</b>	
<b>Advantages</b>	<b>Challenges</b>
Market Scale- population of more than 210 million people	Majority of the population has weak purchasing power
Quality of U.S. products is highly considered	Competitors from other developed countries considered equivalent to U.S. products
Temperate climate crops not locally grown in Indonesia have good potential	Proximate producers in Australia or China can grow temperate climate crops
Frozen juice production in economic volumes	Freezer infrastructure is limited in Indonesia
Demand for fruit juices will increase as the economy develops	Competing national representatives are active in promoting fruit and juices
Developing nation status presents excellent growth potential	Wide cultural differences can present difficulties in negotiations

## Section II: Road Map for Market Entry

### Entry Strategy

Generally applicable principles to be observed in planning entry to the Indonesian market are:

- Personal contact and local representation is essential if a permanent presence in the market is envisaged.
- Selection of a local representative requires careful and detailed research to confirm claims. Commercial acumen is of greater value in the market than claimed "good connections".
- Pay attention to accounting standards applied in the preparation of reports supporting the financial standing of candidate representatives or partners.
- Use the facilities of the US Government, in particular the Agricultural Trade Office, to obtain reliable advisor services.

The following facts should be noted for successful market entry into Indonesia:

- A company may be established as 100 percent foreign owned in Indonesia, but inclusion of a competent local minority partner is useful to assist with adaptation to the business environment and culture.
- Infrastructure in the country is underdeveloped, the law is based on Dutch principles and fluency in English is limited to the upper echelons of society.
- Purchase of a majority share in an existing Indonesian company is currently a viable option because many companies severely affected by the financial crisis are now open to investment

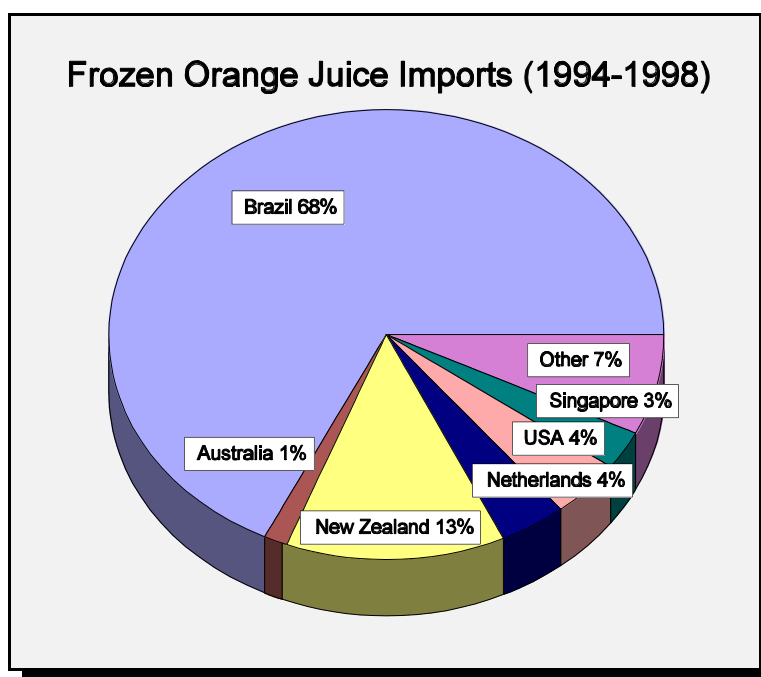
or purchase.

- Foreign investment law has changed radically over recent years, and change towards a more liberal regime continues. Do not use reports dated earlier than 2000 for guidance.
- Cooperation with a reputable Indonesian import agent familiar with regulations is strongly recommended for exporting goods to Indonesia to avoid penalties and delays.
- Beware of requests for under-invoicing from irresponsible importers. Disreputable companies may demand invoice values below the actual purchase price to reduce the burden of duty and taxes. If caught under-invoicing by Customs authorities, penalties are severe.

### **Market Structure**

Opportunities for imported fruit juice and preparations products are limited due to shelf life limitations and paucity of refrigeration infrastructure. The essential requirements are as follows:

- Fresh fruit from temperate climate crops.
- Orange juice in frozen or processed and packaged forms.
- Juice of other fruits and vegetables for sale or processing.
- Fruit preparations for direct sale and industrial use.



Beverage products and ingredients are generally imported by companies which operate as importers and distributors, or by the major beverage manufacturers. However, multinational supermarket chains such as Carrefour from France may import produce for their own retail operation.

The sources of orange juice imports over the five year period have been relatively stable. Frozen orange juice has been imported primarily from Brazil, while the leading supplier of other orange juice has been Australia followed by South Korea. However, Brazil has supplied little non-

frozen orange juice and neither Australia nor South Korea have supplied significant percentages of the frozen orange juice market.

### **Sector Trends**

The reduced purchasing power of the populace (especially the middle class) as a result of the economic crises since 1997 led to a reduced consumption of beverages in Indonesia. However, re-emergence of the middle class consumer group is predicted in the medium term.

The middle class includes about 15 percent of the population or 30 million consumers.

Additionally there are normally four to five million foreign workers and tourists in Indonesia.

It is also important to consider that 85 percent of the population profess the Islamic religion. Strict adherence to Muslim pure food certification is essential to success in the Indonesian market. While beverages might appear to be free from issues of foodstuffs prohibited under the Islamic faith, the complete production chain must be considered and certified as complying with the requirements of Islam. This certification process must not be treated lightly.

### **III: Competition and Market Opportunities**

#### **Tips for Success**

- Pricing is more important than ever in light of the current economic uncertainty.
- Be cautious of middlemen offering entry into Indonesia because their markup may be excessive and reduce your competitiveness in the country.
- Must be flexible with contract terms and conditions.
- Be prepared to deal with communications difficulties due to the 12 to 15 hour time zone difference.
- Play up the superior quality of U.S. products, this is a major selling point.

#### **Products Present in the Market with Good Sales Potential**

- Frozen orange juice: Brazil has demonstrated the opportunity for exporters to gain market share, and freight from the U.S. should be comparable in cost to Brazil.
- Fresh oranges for beverage processing in Indonesia.
- Fresh temperate climate fruits for processing in Indonesia.
- Fruit concentrates where U.S. technology could provide a competitive edge.

#### **Products Not Present in Significant Quantities That Have Good Sales Potential**

- Exotic fruit and berry juices to take advantage of a desire to find prestigious new tastes.
- Education and training in beverage processing technology.

Note: Pineapple juice is not profitable for export to Indonesia because it is produced locally in Indonesia and exported at competitive prices.

### **IV: Post Contact and Further Information**

The U.S. Agricultural Trade Office maintains up-to-date information covering the HRI trade in Indonesia and would be pleased to assist in facilitating exports and entry to the Indonesian market. Questions or comments regarding this report should be directed to the U.S. ATO in Jakarta at the following address.

U.S. Commercial Center  
Wisma Metropolitan II, 3rd Floor  
Jalan Jenderal Sudirman Kav. 29 - 31  
Jakarta 12920, Indonesia  
Tel: 62-21-526-2850  
Fax: 62-21-571-1251  
email: [atojkt@cbn.net.id](mailto:atojkt@cbn.net.id)  
Homepage: <http://www.usembassyjakarta.org/fas>

Please contact our home page for more information on exporting U.S. food products to Indonesia, including "The Food Processing Sector Report: Indonesia"; "The Retail Sector Report: Indonesia"; "The HRI Food Service Sector Report: Indonesia"; "Imports of U.S. Fresh Fruit: Indonesia"; "Hotel and Restaurant Industry: Bali"; "Market Brief - Indonesia Meat Processing Industry", and "Market Brief - Indonesian Wine Imports". As of January 2002 the following reports are available: "The Exporter Guide"; "Market Brief - Indonesian Bakery Industry"; "Market Brief - Beef Liver & Chicken Leg Quarter"; and "Market Brief - Furniture Industry".

For more information on exporting U.S. agricultural products to other countries, please visit the Foreign Agricultural Service's Home Page: <http://www.fas.usda.gov>

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